

OPERATIONS COORDINATING BOARD
Washington 25, D. C.

December 7, 1956

MEMORANDUM FOR OCB WORKING GROUP ON INDONESIA

SUBJECT: Outline Plan of Operations on Indonesia

The Chairman of the Working Group has prepared additional operating guidance, a course of action, and an evaluation of the summary and conclusions of the document entitled Soviet Bloc Economic Penetration of Indonesia, dated November 30, 1956, which was forwarded to you on December 3.

It is proposed that an annex, entitled Annex A with the subject: Soviet Bloc Economic Penetration of Indonesia (Report as of November 30, 1956), be attached to the draft Outline Plan to consist of the following: (1) Summary and Conclusions as it appears in the paper on the above subject which was distributed to you on December 3; and (2) Implications for U. S. Policy Objectives in Indonesia, a draft of which is attached.

The following Special Operating Guidance would appear as Item B. 6. on page 1 of the Outline Plan:

"6. Communist bloc economic penetration efforts in Indonesia should be kept under constant observation and reassessment, and special attention should be given to the formulation of new courses of action designed to meet and nullify emerging aspects of this offensive."

The following course of action would be inserted in the Outline Plan as the first item on page 7 under NSC Para. 17, to appear between Items 25 and 26, to read as follows:

"Seek to discredit, on economic grounds, Soviet bloc economic assistance by publicizing its failures and shortcomings in other countries of Free Asia currently accepting such aid.

"Assigned to: USIA, ICA; Support: State; Target Date: Continuing"

In view of the shortness of time, it is proposed that the special group working on this aspect of the Outline Plan, namely, representatives of State, ICA, CIA, Commerce and Treasury, meet on Tuesday, December 11, at 2:30 p.m., OCB, 700 Jackson Place. Naturally, there is no objection if other members of the working group take a particular interest in countering Soviet bloc economic penetration and wish to enjoy a fruitful meeting.

Attachment:

Draft re Implications for U.S. Policy
Objectives in Indonesia.

OCB Staff Representative

DRAFT

IMPLICATIONS FOR U. S. POLICY OBJECTIVES IN INDONESIA

In evaluating this problem, it should be noted that the communist bloc economic penetration in Indonesia is still in its preliminary stages. The Soviet \$100 million loan agreement does not come into effect until it is ratified by the Soviet and Indonesian Parliaments and the instruments of ratification deposited in Moscow. None of the bloc industrial projects in Indonesia are yet in operation, nor have any even progressed to the point that a completion date can be set. Trade with the bloc, while substantially above previous years, still represents only 3.6 percent of Indonesia's exports and 6.6 percent of its imports. A beachhead has nevertheless been established, and a danger of wide-ranging economic penetration exists.

As overt, and ostensibly friendly and altruistic offers to assist Indonesia in achieving some of its most cherished economic objectives, the Soviet bloc economic offensive in Indonesia presents special problems for U. S. policy in that country. In the service of such goals, and with no apparent political or military preconditions, these offers are almost immune to frontal attack from domestic anti-communist elements. They are in accordance with, and in fact reaffirm, Indonesia's "active and independent" foreign policy. Continued economic contacts between Indonesia and the Soviet bloc, however, must be accepted, and it is possible that Indonesia's maturation as a nation may in fact be served by first-hand

experience with the communist as a businessman. The U. S. must work to minimize the political and economic significance of these contacts.

The factors which have tended to impede U. S. economic assistance to Indonesia - suspicion, hyper-sensitive nationalism, bureaucratic inefficiency

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and reluctance to make binding decisions - in this instance will serve U. S. objectives if they similarly hinder communist bloc efforts. If, in addition to these factors, it is possible to raise in the Indonesian mind question of the economic wisdom of closer ties with the bloc and concern over political problems likely to grow out of such association, Soviet economic penetration can be impeded. At the same time Indonesia must be convinced that closer economic ties with the West are justified on the grounds of national economic self-interest and that the United States and the Free World are prepared to assist Indonesia in coping with its economic problems without imposing political or military commitments.

It is not yet possible to measure the impact of recent developments in Hungary on Indonesian receptivity to Soviet bloc assistance. Some delay in parliamentary action on the Soviet loan agreement at least appears likely, and it is possible that Soviet repression of Hungarian independence may have reestablished Indonesian suspicions and damaged irreparably the carefully cultivated Soviet myth of peaceful co-existence on which the entire concept of aid to Indonesia rests.

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